

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

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Financial Statements  
with  
Independent Auditors' Report  
For the years ended December 31, 2012 and 2011

By

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RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

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### INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water District No. 1  
Jefferson County, Kansas

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Jefferson County, Kansas as of and for the years ended December 31, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rural Water District No. 1, Jefferson County, Kansas as of December 31, 2012 and 2011 and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, management has elected to omit this information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Rural Water District No. 1, Jefferson County, Kansas' financial statements as a whole. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying and other records used to prepare the financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the District's members and management of Rural Water District No. 1, Jefferson County, Kansas and should not be used for any other purposes.

  
Douthett & Co. CPA, PA  
Certified Public Accountants  
February 11, 2013

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF NET POSITION  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 88,547	\$ 51,779
Certificates of deposit	182,850	232,637
Accounts receivable	26,224	31,138
Prepaid expenses	6,963	3,679
Inventories	<u>72,071</u>	<u>65,770</u>
TOTAL CURRENT ASSETS	376,655	385,003
NONCURRENT ASSETS:		
Capital assets, net of accumulated depreciation	1,808,184	1,892,217
Capital assets not being depreciated	76,038	76,038
Loan fees, net of accumulated amortization	-	306
Deposits	<u>440</u>	<u>515</u>
TOTAL NONCURRENT ASSETS	<u>1,884,662</u>	<u>1,969,076</u>
TOTAL ASSETS	<u>2,261,317</u>	<u>2,354,079</u>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF NET POSITION (Continued)  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 12,595	\$ 15,717
Accrued expenses	5,726	4,365
Accrued interest	-	381
Current maturities of long-term debt	<u>-</u>	<u>27,835</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,321</b>	<b>48,298</b>
<b>NONCURRENT LIABILITIES</b>		
Notes payable, net of current maturities	<u>-</u>	<u>27,041</u>
<b>TOTAL LIABILITIES</b>	<b><u>18,321</u></b>	<b><u>75,339</u></b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,808,184	1,837,341
Unrestricted	<u>434,812</u>	<u>441,399</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 2,242,996</u></b>	<b><u>\$ 2,278,740</u></b>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF ACTIVITIES  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Water sales	\$ 305,646	\$ 334,250
Reimbursement income	<u>-</u>	<u>375</u>
Total Revenues	305,646	334,625
OPERATING EXPENSES	<u>(363,441)</u>	<u>(381,458)</u>
INCREASE FROM OPERATIONS	(57,795)	(46,833)
NONOPERATING REVENUES (EXPENSES)		
Revenue: Interest income	1,268	2,390
Expenses: Interest expense	(677)	(2,480)
Amortization	-	(175)
Depreciation	<u>(3,110)</u>	<u>(3,207)</u>
DECREASE FROM NONOPERATING	<u>(2,519)</u>	<u>(3,472)</u>
DECREASE IN UNRESTRICTED ASSETS	(60,314)	(50,305)
CAPITAL CONTRIBUTIONS	24,570	91,725
NET ASSETS, Beginning of Year	<u>2,278,740</u>	<u>2,237,320</u>
NET ASSETS, End of Year	<u>\$ 2,242,996</u>	<u>\$ 2,278,740</u>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 310,560	\$ 335,775
Payments to suppliers	(234,580)	(233,809)
Payments to employees	(28,467)	(46,100)
Net Cash Provided (Used) by Operating Activities	<u>47,513</u>	<u>55,866</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	24,570	91,725
Reimbursements for capital assets	-	375
Depreciation on non-operating assets	3,110	-
Purchases of capital assets	(30,744)	(213,051)
Interest paid on capital debt	(748)	(2,684)
Principal paid on capital debt	(54,876)	(27,329)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(58,688)</u>	<u>(150,964)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,268	2,390
(Increase) decrease in certificates of deposit	46,675	(225)
Net Cash Provided (Used) by Investing Activities	<u>47,943</u>	<u>2,165</u>
Net Increase (Decrease) in Cash	36,768	(92,933)
BALANCE, Beginning of Year	<u>51,779</u>	<u>144,712</u>
BALANCE, End of Year	<u>\$ 88,547</u>	<u>\$ 51,779</u>

See accompanying notes to financial statements



RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF CASH FLOWS (Continued)  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ (57,795)	\$ (47,208)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	111,666	111,545
Changes in assets and liabilities:		
Accounts receivable	4,914	1,526
Prepaid expenses	(3,284)	(510)
Inventory	(6,302)	3,468
Deposits	75	(116)
Accounts payable	(3,122)	(8,578)
Accrued expenses	1,361	(4,261)
Net Cash Provided (Used) By Operating Activities	<u>\$ 47,513</u>	<u>\$ 55,866</u>

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of Organization

Rural Water District No. 1, Jefferson County, Kansas (the District) is a quasi-municipal corporation located in Meriden, Kansas. It was established for the purpose of operating a water supply and distribution system to the benefit units within its geographic area.

Basis of Accounting

The financial statements of Rural Water District No. 1, Jefferson County, Kansas are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District has the option to apply FASB pronouncements issued after that date and has elected to apply those when applicable. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June, 1999 the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, GASB requires the financial statements to include:
  - A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. Management has elected to omit the Management Discussion and Analysis.
  - Financial statements are prepared using full accrual accounting for all of the District's activities.

Financial Reporting Entity

The District's basic financial statements include the accounts of all District operations. The District is a separate legal entity created by the Kansas Legislature as described above.

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Rural Water District No. 1, Jefferson County, Kansas is accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are reported using the economic resources measurement and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities are included on the Statement of Net Assets and the operating statement presents increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all monies in the bank and highly liquid investments with original maturity dates of less than three months. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. The entity paid no cash for income taxes nor did it have any noncash financing transactions.

Investments

Investments are stated at cost and consist of certificates of deposit which have an original maturity date longer than three months. All investments are in a financial institution insured by the Federal Deposit Insurance Corporation (FDIC). Investments in excess of the \$250,000 FDIC insurance are collateralized with bank instruments. Additional deposit and investment information including fair values are presented in Note 9.

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

All capital assets are valued at historical cost. Depreciation is based upon the estimated useful lives of the assets, using the straight-line method. Expenditures for major renewals and betterments that extend the lives of property and equipment are capitalized. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are reduced and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions. The District has no restricted net assets at December 31, 2012 and 2011.

Income Taxes

The District is a quasi-municipal governmental unit, which is exempt from federal and state income taxes.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2012</u>	<u>2011</u>
Petty cash	\$ 96	\$ 98
Cash in checking	<u>88,451</u>	<u>51,681</u>
Total Cash	<u>\$ 88,547</u>	<u>\$ 51,779</u>

NOTE 3 – ACCOUNTS RECEIVABLE

The District offers unsecured credit for water service, however collections of accounts receivable are generally current. At December 31, 2012 and 2011, there were minimal amounts of uncollected accounts due over ninety days. Uncollectible accounts are written off in the period they become worthless.

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 4 – PREPAID EXPENSES

Prepaid expenses consist of deposits on chemical cylinders, prepaid engineering fees and prepaid insurance. Payments for insurance coverage are amortized over the term of the premium payment.

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost or market and are valued using the first-in, first-out (FIFO) method. Inventory amounts include materials and pipe for expansion of the water system. As these materials are used, they are charged to the property or maintenance accounts as appropriate.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1	Additions/ Completions	Retirements/ Adjustments	Balance December 31
Capital Assets Not Being Depreciated:				
Land	\$ 76,038	\$ -	\$ -	\$ 76,038
Capital Assets Being Depreciated:				
Plant and Lines	3,713,190	28,969	-	3,742,159
Office Equipment	22,064	-	-	22,064
Building	77,506	1,775	-	79,281
Total Being Depreciated	3,812,760	30,744	-	3,843,504
Less Accumulated Depreciation:				
Plant and Lines	1,863,672	110,207	-	1,973,879
Office Equipment	14,858	1,937	-	16,795
Building	42,013	2,632	-	44,645
Total Accumulated Depreciation	1,920,543	114,776	-	2,035,319
Net Being Depreciated	1,892,217	(84,032)	-	1,808,184
Total Capital Assets	\$ 1,968,255	\$ (84,032)	\$ -	\$ 1,884,222

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1	Additions/ Completions	Retirements/ Adjustments	Balance December 31
Capital Assets Not Being Depreciated:				
Land	\$ 76,038	\$ -	\$ -	\$ 76,038
Capital Assets Being Depreciated:				
Plant and Lines	3,302,536	410,654	-	3,713,190
Office Equipment	22,064	-	-	22,064
Construction in Process	223,109	(223,109)	-	-
Building	52,000	25,506	-	77,506
Total Being Depreciated	3,599,709	213,051	-	3,812,760
Less Accumulated Depreciation:				
Plant and Lines	1,753,544	110,128	-	1,863,672
Office Equipment	12,965	1,893	-	14,858
Building	39,282	2,731	-	42,013
Total Accumulated Depreciation	1,805,791	114,752	-	1,920,543
Net Being Depreciated	1,793,918	98,299	-	1,892,217
Total Capital Assets	<u>\$ 1,869,956</u>	<u>\$ 98,299</u>	<u>\$ -</u>	<u>\$ 1,968,255</u>

Depreciation expense for years ended December 31, 2012 and 2011 was \$114,752 and \$112,521, respectively.

NOTE 7 – LOAN FEES

In 2003 the District obtained a ten year loan for construction of a new water tower. Loan fees were paid in order to obtain this loan. The fees are being amortized over the life of the note. Loan fees at December 31, 2012 and 2011 consist of the following:

	2012	2010
Loan fees	\$ 1,750	\$ 1,750
Less: Accumulated amortization	(1,750)	(1,444)
Net Loan Fees	<u>\$ -</u>	<u>\$ 306</u>

Amortization expense for the years ended December 31, 2012 and 2011 was \$306 and \$175, respectively.

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees. The District participates in the Kansas Rural Water Safety Group Insurance Program to provide insurance coverage for these risks. The District along with other districts contribute annual premiums determined by the program. If claims arise they are submitted and paid by the program. There were no significant reductions in insurance coverage from the prior year.

NOTE 9 – DEPOSITS AND INVESTMENTS

The District had the following investments and maturities at December 31, 2012:

	Fair Value	Investment Maturities (in years)	
		Less than 1	1 to 2
Savings	\$ 1,842	\$ 1,842	\$ -
Certificate of Deposit	181,008	181,008	-
Total	<u>\$ 182,850</u>	<u>\$ 182,850</u>	<u>\$ -</u>

The District had the following investments and maturities at December 31, 2011:

	Fair Value	Investment Maturities (in years)	
		Less than 1	1 to 2
Savings	\$ 1,839	\$ 1,839	\$ -
Certificate of Deposit	230,798	230,798	-
Total	<u>\$ 232,637</u>	<u>\$ 232,637</u>	<u>\$ -</u>

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 9 – DEPOSITS AND INVESTMENTS (Continued)

The allocation of investments as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Savings	1.01%	0.79%
Certificate of Deposit	98.99%	99.21%

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

The bank carrying amounts of the District's deposits was \$271,301 and \$291,058 at December 31, 2012 and 2011, respectively. At December 31, 2012, \$250,000 of the bank balance was covered by FDIC insurance, and \$21,301 was covered by securities pledged by the bank. At December 31, 2010, \$250,000 of the bank balance was covered by FDIC insurance, and \$41,058 was covered by securities pledged by the bank.

NOTE 10 – LONG-TERM DEBT OBLIGATIONS

In October, 2003 the District secured a loan from Denison State Bank for the construction of a new water tower. The loan is payable in annual installments in the amount of \$29,668, bearing the interest rate of 3.24%, due October, 2013. The balance was entirely paid at December 31, 2012 and had a balance of \$54,876 at December 31, 2011.

<u>Date Issued</u>	<u>Original Amount</u>	<u>Out- standing 1-1-12</u>	<u>Issued</u>	<u>Principal Payments</u>	<u>Out- standing 12-31-12</u>
10-13-03	\$ 250,000	\$ 54,876	\$ -	\$ 54,876	\$ -

Interest expense on outstanding debt for the year ended December 31, 2012 and 2011 was \$667 and \$2,480, respectively.



RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2012 and 2011

NOTE 11 - DISCLOSURE OF EVALUATION OF SUBSEQUENT EVENTS

The District has adopted FASB ASC Topic 855, *Subsequent Events*. ASC 855 establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on the Companies' financial statements.

In accordance with ASC 855, the Company evaluated subsequent events through February 11, 2013, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

The District is in receipt of complaints by former employees, Rene Keller and Tristan Charbonneau. These arose from claims of improper termination of employment. Ms. Keller seeks \$245,190 and Mr. Charbonneau seeks \$250,466. The District believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion, the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any that might result from the resolution of this matter have not been reflected in the financial statements. The suit brought by Ms. Keller was settled in 2012.

## SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 1  
JEFFERSON COUNTY, KANSAS

SCHEDULES OF OPERATING EXPENSES  
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Analysis - lab fees	\$ 5,244	\$ 6,398
Accounting and legal	24,961	46,493
Advertising and notices	325	661
Automobile expense	92	-
Chemicals	8,210	7,159
Conferences and meetings	-	390
Depreciation	111,666	111,545
Dues and subscriptions	885	838
Engineer fees	3,446	3,297
Insurance	8,809	5,836
Miscellaneous	60	457
Office supplies	8,254	7,697
Payroll taxes	4,055	12,123
Rent	75	35
Repairs and maintenance	124,369	112,528
Returns and allowances	-	450
Salaries	25,612	29,619
Supplies	524	579
Telephone	2,551	2,506
Travel	226	623
Utilities	29,720	27,223
Water protection tax	4,157	5,001
Water rights	200	-
	<u>          </u>	<u>          </u>
Total Expenses	<u>\$ 363,441</u>	<u>\$ 381,458</u>

See accompanying notes